

Report of the Remuneration Committee

Foreword

Standard Life's remuneration approach is to reward outstanding performance that benefits policyholders and not reward poor performance. This report gives full details of all the remuneration paid to directors during the last year.

During 2005, the Remuneration Committee (the Committee) conducted a review of the Group's pension provisions in light of proposed changes to pension legislation taking effect from 6 April 2006 ('A' day). The results of this review are outlined below.

All the new arrangements are in line with best practice and recognise the Group's strong commitment to good corporate governance.

Remuneration Committee

The members of the Committee, who are all independent non-executive directors, are Gerry Grimstone (Chairman), Hugh Stevenson and Lord Blackwell.

The Committee considers and makes recommendations to the Board on the remuneration policy and rewards for the Chairman, the executive directors and senior executives. A copy of the Committee's terms of reference is available from the Group's website at www.standardlife.com.

New Bridge Street Consultants LLP continue to provide the Committee with independent remuneration advice. Other than assisting in the Committee's work, New Bridge Street Consultants LLP have also been assisting with the design of all-employee share plans. The Committee receives information on comparative pay data from Towers Perrin. It also receives advice from the Group Chief Executive, Group Operations Director and the Compensation and Benefits Manager concerning the implementation of remuneration policy.

Remuneration policy

The Group believes that its people are a key factor in contributing to the overall success of the organisation and is committed to providing total remuneration packages which enable it to attract, reward and retain high quality staff. Remuneration packages are based on market rates and on an individual's contribution to the Group's performance.

The Group seeks to provide remuneration packages which reward superior performance in a manner which is consistent with the long-term interests of policyholders. For executives, this is achieved by ensuring that potential rewards under long-term incentive arrangements are greater than those available under short-term incentive plans.

During 2004 the Committee reviewed the Group's incentive arrangements. This has led to amendments being made to the performance related annual bonus and to the implementation of a new Long-Term Incentive Plan (LTIP), both from January 2005, the details of which are described below.

Remuneration packages for the Group's executive directors comprise: base salary, a number of benefits (to be delivered through a flexible benefits programme from June 2006), pension provision, short-term (annual) bonus and participation in a long-term incentive plan. The salaries and other emoluments shown in the directors emoluments table below cover the 12 months to 31 December 2005. The figures relating to 2004 cover the 13.5 month accounting period to 31 December 2004 and are not directly comparable to the salaries and emoluments paid this year. Details of each element of the package are as follows:

Base salary

The Committee, assisted by its independent advisor, reviews annually data concerning the level of salaries paid to senior executives performing similar roles in the financial services industry and more broadly where appropriate. It also considers the prevailing circumstances of the Group and base salary levels throughout the organisation. The contribution and the level of experience of each executive director are taken into account to determine base salary. This is then reviewed by the Committee in the context of the total remuneration package.

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Benefits

Executive directors are eligible to receive benefits comprising car allowance, health care provision and beneficial loans on equivalent terms to other employees. There are no special arrangements for directors. Where appropriate, reasonable relocation costs for new directors are met by the Group.

Pension arrangements

In the UK, Standard Life's defined benefit pension scheme was closed to new entrants, including any new directors, from 16 November 2004. All new recruits from this date are offered participation in a defined contribution pension scheme. UK based executive directors who joined Standard Life before 16 November 2004 are members of a staff pension scheme which provides pensions on a final salary basis. The normal retirement age is 60 for the UK scheme and 65 for the Canadian scheme.

In the UK, the accrual rate prior to 16 November 2004 was 1/60th of final salary for each year of service. From this date, all staff, including executive directors, decided whether to agree to sacrifice a percentage of pensionable pay in order to retain this level of accrual or accept a lower future accrual rate of 1/80th of pensionable pay. The level of sacrifice from 16 November 2004 was 2% of pensionable pay and rose to 3.5% from 16 November 2005. It rises to 5% of pensionable pay from 16 November 2006. Post retirement increases in pensions are discretionary and in the past have been based on retail price index inflation.

In Canada, there is a final salary pension scheme which encompasses defined benefit and defined contribution elements. Prior to 1 January 2005, the accrual rate was 1/60th. From this date, the accrual rate is 1/80th and employees are required to contribute 25% of the cost of the benefits and Standard Life contributes 75% of the cost of the benefits. All employee contributions are directed to the defined contribution option of the pension plan. The plan applies to all employees.

For death during pensionable service in the UK, a lump sum of up to four times salary is payable, together with a spouse's pension of up to one-third of the member's pensionable salary. In Canada, a lump sum equal to the commuted value of the pension to which the member is entitled is payable to the surviving spouse, together with a spouse's pension equal to 30% of pensionable earnings. For death in retirement, a spouse's pension of up to two-thirds of the member's pension is payable. Children's allowances are payable, usually up to the age of 18 (25 in Canada if in full time education), and protection is afforded in the event of disablement.

The Committee has reviewed executive pension provisions in the light of the proposed changes in pension legislation which become effective from 6 April 2006. Those who joined the Group before 16 November 2004 (Sandy Crombie, John Hylands and Trevor Matthews) will have the option to:

- retain membership of the defined benefit pension scheme on existing terms;
- sacrifice 5% of base salary which the employer will inject into a defined contribution scheme along with a further employer contribution of 27.5% of base salary; or
- receive a non-consolidated cash supplement of 25% of base salary.

For UK executive directors with service prior to 1982 (only Sandy Crombie and John Hylands), a past commitment has been made that up to the age of 65 annual pension increases should be made in line with salary inflation and (for John Hylands) that he would be able to accrue by age 60 the level of pensionable service that would have applied at age 65.

As part of the Committee's review of executive pension provisions, it requested Sandy Crombie and John Hylands to forego the special increase provision for service after 5 April 2006. As compensation for this, the Group has injected a payment of £35,600 for Sandy Crombie and £38,100 for John Hylands in March 2006 into their respective Retirement Account Plans which are individual money purchase arrangements attached to the main staff defined benefit pension scheme. The payments were calculated by the Scheme Actuary and were based on the present value of the difference between the special pension increase rate and the normal increase rate for service after 5 April 2006.

John Hylands will continue to accrue pensionable service as described above whilst he remains in the defined benefit pension scheme. In the event that he elects to opt out of the scheme after 5 April 2006, the Committee has indicated that he will receive compensation on a cost neutral basis at his retirement date for any loss of accrued service.

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Alison Reed joined Standard Life on 13 June 2005 and does not participate in the defined benefit pension arrangement. Her contract provides for a notional pension allowance of 20% of annual base salary which was subject to review by the Committee. She sacrifices 25% of the earnings cap from this allowance and the Group pays an equivalent amount into the defined contribution pension scheme on her behalf. The balance of the pension allowance (£20,150 in 2005) was paid in equal monthly instalments subject to tax and national insurance deductions. For death during service, a lump sum of up to four times salary is payable. As mentioned above, the Committee has determined that the level of the non-consolidated cash supplement has been increased to 25% of base salary and under the terms of the contract agreed when hiring Alison Reed, this will be backdated to her start date. She received a payment of £12,477 in February 2006 to reflect this change for the period between her start date and 31 December 2005. The total payment of £32,627 is included in the Taxable Benefits column in Table 1 (below).

Annual bonus

Each executive director participates in a performance related non-pensionable annual bonus scheme. Group performance and individual contribution determine the amount paid to each executive director.

New bonus plan

As part of its review the Remuneration Committee introduced a new annual bonus scheme from 1 January 2005. The amount of annual bonus that can be earned is capped and is based on salary level as at the end of the relevant period. For the Group Chief Executive the scheme is designed to deliver a bonus of 50% of salary for achieving target performance and he has a maximum potential bonus of 100% of salary. For the other executive directors, achieving target performance would deliver a payment of 45% of base salary, and the maximum potential is 90% of salary. These figures have been set by the Committee to ensure that there will be a significant degree of stretch between the performance required for achieving target and maximum bonus payments.

For executive directors, the Committee has determined that 20% of bonus potential may be payable for an executive director achieving pre-determined personal targets during the year as assessed by the Committee. The balance of any potential bonus (80%) relates to the financial performance of the Group and the business for which the director is responsible. For the Group Chief Executive, the Group Finance Director and the Group Demutualisation Director, the entire 80% of annual bonus potential will depend on the Group's results. For the Chief Executive of UK & Europe Life and Pensions, 50% of total potential bonus will depend on the UK & Europe Life and Pensions performance and 30% will depend on the Group's performance.

Financial performance is measured by comparing the year's actual profitability compared to budgeted profitability. For example, European Embedded Value (EEV) profits before tax are used for life and pension businesses, and for Standard Life Investments, Standard Life Bank and Standard Life Healthcare, operating profits before interest and tax are used. The Group's profitability is the sum of these businesses' EEV and operating profits. Since each business unit is also expected to operate within clear capital plans, the Committee has discretion to reduce payments on an exceptional basis if capital usage is significantly greater than planned. All payments under the annual bonus scheme are taken into account when calculating the profits earned by the Group and/or the relevant business.

Long-term incentive plans

During 2004 the Committee reviewed the previous long-term incentive plans (LTIP) and concluded that a new non-pensionable LTIP (the 2005 Plan) should be implemented. As a result of the change to the financial year-end date awards are granted in January of each year from 2005 onwards. As awards were previously granted in November of each year, there is no 2004 plan.

2005/2006 Awards

In 2005, approximately 80 of the Group's most senior executives, including the executive directors, were granted an award under the LTIP. This is a significantly smaller population of participants than in previous years and reflects the Committee's desire to ensure that long-term rewards are focused on the individuals who can deliver longer term results.

The awards take the form of a right to receive a cash payment in three years' time provided that a performance condition is achieved (described below) and the executive remains employed by Standard Life. However, should the Group's shares become listed during the three-year vesting period, the awards will be converted into awards over Standard Life shares using the average share price during the period of 20 days commencing with date of flotation. The flotation will not trigger a payment of bonus or early vesting of awards.

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The performance target is based on the Group's return on capital. Return on capital is defined as the sum of the operating profits of Standard Life Bank, Standard Life Healthcare and Standard Life Investments and the EEV profits of the UK, Canadian and International life and pension businesses divided by a Group capital figure as defined in the rules of the Plan.

The target is set on a sliding scale basis and performance will be measured over a three-year period. For example, for the 2005 awards, the return on capital for the year ending 31 December 2007 will be compared with the target. If the performance condition is not met at this first and only review then the awards lapse.

This performance target has been chosen by the Committee because it is an appropriate measure of the financial performance of the Group as a whole, it is aligned to the corporate goals of the Group and has universal application across all participants.

For 2006, approximately 80 of the Group's most senior executives, including the executive directors, were granted an award under the LTIP. The performance target is the return on capital and, as part of the Company's transition in reporting EEV profits, the return on capital over the two years ending 31 December 2008 will be compared with target.

For both awards, the maximum bonus levels available to the Group Chief Executive will be 175% of salary. The maximum bonus levels for the other executive directors will be 100% of salary.

2002/2003 Awards

The 2002 and 2003 awards were granted under an earlier LTIP (which has been replaced with the plan described above). These two awards have three-year performance periods commencing on 16 November of the relevant year and the rules of the former plan state that the Board will assess the Group's success in creating value for its participating with profits policyholders over the relevant three years. In making this assessment, the Board will take into account the profitability of the Group's operations, investment returns on the Group's with profits funds and such other matters as it may consider relevant. Comparative information will be used where available. As the basis of its review, the Board assesses each business unit's performance and considers the relative weighting each business unit has on overall Group performance.

The maximum bonus percentage for each of the current executive directors, reflecting their responsibilities during the respective three-year performance periods, is as follows:

	2002 Award	2003 Award
Sandy Crombie	100%	100%
John Hylands	85%	85%

For Claude Garcia, the maximum bonus percentage was 200%.

For the 2002 award, the three-year performance period ended on 15 November 2005 and the Board, in making its assessment, has determined that zero vesting is applicable. Awards have therefore lapsed and there is no opportunity to retest performance at a future date.

Personal Bonus - Trevor Matthews

Special recruitment arrangements were required when hiring Trevor Matthews and these were fully explained in the Remuneration Report in the 2004 Annual Report and Accounts. To compensate him for the future potential gain in lost share options and other long-term equity benefits, a non-pensionable personal bonus arrangement was agreed for 2004, 2005 and 2006. The maximum bonus available is 85% of base salary. Specific objectives are agreed at the start of each business year with the Board. For the business year ended 31 December 2005, the Board have approved a personal bonus payment of £363,375.

Recruitment of Alison Reed

No special recruitment arrangements, other than that relating to pension provision (described above) were made on recruitment of Alison Reed.

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Retirement of Claude Garcia

Claude Garcia stepped down from his position as President, Canadian Operations and as an executive director from 31 December 2004. He remained in employment in a consultancy capacity until his retirement, on 12 November 2005, on his previous terms and conditions of employment and continued to participate in the annual bonus arrangement and long-term incentive plans until his date of retirement. For the period 1 January 2005 to 12 November 2005 he received a salary of £283,802, benefits to the value of £14,992 and a bonus payment of £110,962. He also received a payment of £32,298 in respect of an award under the 2005 long-term incentive plan up to his date of retirement. He will receive no further payment in respect of the 2002, 2003 or 2005 LTIP.

Policy on service contracts

All executive directors have service contracts that provide for a twelve month notice period from the Group.

Dates of service contracts are:

Sandy Crombie	21 October 2005
John Hylands	20 November 2002
Trevor Matthews	1 July 2004
Alison Reed	13 June 2005
Keith Skeoch	6 March 2006

With the exception of John Hylands, no directors have contracts which contain any provisions for compensation payments beyond the terms of their service agreement on termination. In light of the Group's request for John Hylands to lead the demutualisation programme, he has agreed with the Group that should his employment be terminated following completion of the demutualisation programme, he will be entitled to receive a termination payment equal to 12 months salary with benefits and that such package will be no worse than that which would be available to other senior executives in a similar position at the date of termination.

Keith Skeoch was appointed to the Board on 6 March 2006, therefore no information on his remuneration is provided in this report.

The Chairman and the non-executive directors have letters of appointment with one month's notice provision on either side. The date of first appointment for the Chairman and each non-executive director is:

Sir Brian Stewart	27 April 1993
Lord Blackwell	24 June 2003
Gerry Grimstone	22 July 2003
Alison Mitchell	16 December 2000
Sir Nicholas Monck	16 August 1997 (retired 22 March 2005)
David Newlands	16 June 1999 (resigned 6 March 2006)
Jocelyn Proteau	26 August 2003
Hugh Stevenson	16 June 1999
Kent Atkinson	26 January 2005

The letters of appointment do not contain any provisions for compensation payments to be made to the Chairman and non-executive directors on termination.

Policy on external appointments

Subject to the Board's approval, executive directors are able to accept a limited number of external appointments to the boards of other organisations. Any fees may be retained by the individual. Alison Reed receives fees of £42,500 as a non-executive director of British Airways PLC. Sandy Crombie is an active member of the Board of the Association of British Insurers, but received no fee for this work.

Chairman and non-executive directors' remuneration

The Chairman and non-executive directors are not eligible to participate in annual bonus plans, long-term incentive plans or pension schemes (except as disclosed in Table 3: Directors' pension information, footnote 4). Their fees are set by the Board after taking advice from the Group Chief Executive and take into account the time commitment and responsibility of the roles and the fees paid by other comparable organisations within the financial services sector.

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Audited information

Directors' remuneration for 2005

1. Directors' emoluments, excluding LTIP and pension information

Emoluments in respect of the 12-month period ended 31 December 2005 are shown below.

Group performance and individual contribution determined the amount of annual bonus paid to each executive director. The Committee reviewed both actual performance against previously set demanding profit targets to determine the group element of the award and also the personal element, which reflects the executive's success in meeting individually tailored targets.

	Base Salary / Fees £000	Taxable Benefits £000	Annual Bonus £000	Total 2005 £000	Total for 13.5 months to 31/12/2004 £000	Total 2004 ¹ £000
Executive Directors						
Sandy Crombie ²	656	20	686	1,362	682	606
John Hylands ³	332	17	300	649	458	407
Trevor Matthews ⁴	475	36	774	1,285	1,615	-
Alison Reed ⁵	249	58	220	527	-	-
Non-Executive Directors						
Sir Brian Stewart	150	-	-	150	137	122
Kent Atkinson ⁶	48	-	-	48	-	-
Lord Blackwell ⁷	54	-	-	54	41	37
Gerry Grimstone ⁸	60	-	-	60	45	40
Alison Mitchell	50	-	-	50	41	37
David Newlands ⁹	80	-	-	80	67	60
Jocelyn Proteau ¹⁰	70	-	-	70	41	37
Hugh Stevenson ¹¹	80	-	-	80	66	58
Former Executive Directors						
Claude Garcia ¹²	-	-	-	-	367	326
Iain Lumsden ¹³	-	-	-	-	151	-
Former Non-Executive Directors						
The Hon Roy MacLaren ¹⁴	-	-	-	-	39	-
David Lewis ¹⁵	-	-	-	-	20	-
Sir Nicholas Monck ¹⁶	15	-	-	15	43	38
Total	2,319	131	1,980	4,430	3,813	-

- The 12-month equivalent figure is provided for those individuals who were directors for the full 13.5 month period. It is a proportion (366/412 or 88.8%) of the total 2004 (13½ month) figure.
- Sandy Crombie elected to sacrifice £14,165 from his salary in return for an equivalent employer contribution into the defined benefit pension scheme. The total emoluments for the 13 ½ month business year ended 31/12/04 (£682k) do not include any bonus payment. Notwithstanding his contractual right to a payment of £200,000, Sandy Crombie did not accept any bonus for 2003/04, nor did he accept a LTIP payment of £324,355.
- John Hylands elected to sacrifice £7,115 from his salary in return for an equivalent employer contribution into the defined benefit pension scheme. He decided not to accept a LTIP payment of £68,147 in 2004.
- Trevor Matthews elected to sacrifice £10,198 from his salary in return for an equivalent employer contribution into the final salary pension scheme. In order to provide compensation for loss of share options and other long-term equity benefits, the Board agreed a non-pensionable personal bonus arrangement for 2004, 2005 and 2006. For 2005, the Board have approved a personal bonus payment of £363,375 related to his recruitment arrangements and this is included under annual bonus. Appointed to the Board on 1 July 2004, his remuneration in 2004 related to the period from appointment to the business year-end. Full details of the special recruitment arrangements required when hiring Trevor Matthews in 2004, including the payment of compensation on joining of £1,043,471, were fully disclosed in the 2004 Annual Report and Accounts.
- Alison Reed was appointed on 13 June 2005. Base salary, taxable benefits and annual bonus in the above table relate to the period since appointment to the year-end. Taxable benefits include a pension allowance of 25% of base salary from which she has elected to sacrifice £14,300 and in return the Group makes an equivalent employer contribution into a money purchase pension scheme. She has also incurred relocation expenses of £2,322 to date.
- Appointed 26 January 2005.
- Lord Blackwell's total fee includes a fee as Chairman of Life & Pensions (£4,000).
- Gerry Grimstone's total fee includes a fee as Chairman of the Remuneration Committee (£10,000).
- David Newlands' total fee includes a fee as Deputy Chairman (£20,000) and Chairman of the Audit Committee (£10,000). He resigned as a Director on 6 March 2006.
- Jocelyn Proteau's fee reflects the extra responsibilities in relation to Canadian domestication. His 'normal' fee would be £60,000, which includes a fee as Chairman of the Canadian Board (£10,000).
- Hugh Stevenson's total fee includes a fee as Senior Independent Director (£20,000) and Chairman of Standard Life Investments (£10,000).
- Claude Garcia stepped down from his position as President, Canadian Operations and as an executive director from 31 December 2004. He remained in employment in a consultancy capacity until his retirement on 12 November 2005 and under the terms of his contract received payment of base salary (£283,802), taxable benefits (£14,992) and annual bonus (£110,962) for the period from 1 January 2005 to his date of retirement.
- Resigned as a director 12 January 2004, retired on 31 January 2004. Base salary and taxable benefits in the above table relate to the period from 16 November 2003 to his date of retirement.
- Retired on 23 November 2004.
- Resigned on 25 June 2004.
- Retired 22 March 2005.

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2. Directors' interests in cash based long-term incentive plans (LTIPs)

	Maximum unvested LTIPs outstanding at 31/12/2004 ¹	Amounts paid in period ²	LTIPs that have lapsed ³	Maximum value of LTIPs that could vest in 2006 ⁴	Maximum value of LTIPs that could vest in 2007 ⁵
	£000	£000	£000	£000	£000
Sandy Crombie	1,136	-	542	594	1,138
John Hylands	502	-	230	272	331
Trevor Matthews ⁶	-	-	-	-	475
Alison Reed ⁷	-	-	-	-	383
Former Executive Director					
Claude Garcia ⁸	865	32	897	-	-

1. This column shows the aggregate maximum value of cash awards outstanding at 31 December 2004. This comprises the 2002 and 2003 cash awards.
2. This column represents the cash amount paid to participants in the period to 31 December 2005. For Claude Garcia this payment relates to the 2005 award up to his retirement date.
3. This column shows the cash awards which have lapsed during the period due to the performance conditions not being met. This column represents the full 2002 awards. For Claude Garcia it also represents the full 2003 award and part of the 2005 award.
4. This column shows the maximum cash value of the 2003 awards which covers the performance period from 16 November 2003 to 15 November 2006, with vesting thereafter subject to performance.
5. This column shows the maximum cash value of the 2005 awards which covers the performance period from 1 January 2005 to 31 December 2007, with vesting thereafter subject to performance.
6. Trevor Matthews did not receive awards in 2002 or 2003.
7. Alison Reed did not receive awards in 2002 or 2003. She was granted a 2005 award on 13 June 2005 and the maximum value expressed in the above table is pro-rated to reflect this date.
8. Claude Garcia's awards are denominated in Canadian dollars and the exchange rate of £1 = \$2.005 as at 31 December 2005 (2004: £1 = \$2.303) has been used in this table. He retired as a director on 31 December 2004 but remained in employment in a consultancy capacity until his retirement on 12 November 2005. He participated in LTIPs until his date of retirement. He will receive no further payment in respect of the 2002, 2003 or 2005 awards.

3. Directors' pension information

	Age at 31/12/2005	Years of pensionable service at 31/12/2005	Accrued entitlement at 31/12/2004 or date of retirement £000	Additional pension earned during the year £000	Additional pension earned in excess of inflation £000	Transfer value of additional pension in excess of inflation £000	Accrued entitlement at 31/12/2005 or date of retirement £000	Transfer value of pension at 31/12/2004 £000	Increase in transfer value £000	Transfer value of pension at 31/12/2005 or date of retirement £000
Sandy Crombie ¹	56	36	388	41	29	570	429	6,669	1,633	8,302
John Hylands ²	54	29	159	7	2	33	166	2,142	363	2,505
Trevor Matthews ³	53	1	2	3	3	55	5	22	61	83
Sir Brian Stewart ⁴	60	10	5	-	-	-	5	77	12	89
Former Executive Director										
Claude Garcia ⁵	65	31	157	33	19	263	190	1,786	800	2,586

1. The increase in transfer value (£1,633,000) includes an employer contribution of £14,165 resulting from Sandy Crombie's decision to sacrifice this element of his salary.
2. The increase in transfer value (£363,000) includes an employer contribution of £7,115 resulting from John Hylands' decision to sacrifice this element of his salary.
3. Trevor Matthews' total contractual pension entitlement is 1/60th of uncapped base salary for each year of company service. In addition to the above, he has additional benefits provided via unfunded unapproved arrangements. The accrued pension and transfer value at 31 December 2005 were £6,575 and £147,000 respectively. The increase in transfer value (£61,000) includes an employer contribution of £10,198 resulting from his decision to sacrifice this element of his salary.
4. Sir Brian Stewart was a member of a scheme which provided pensions based on final fees payable in respect of services as a director of the Group. The Group wound up this scheme on 16 November 2001 and he is no longer entitled to earn additional pension benefits from the Group.
5. Retired on 12 November 2005 – data for 2005 is at date of retirement.

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Unaudited information

Except for Canada, members of the schemes have the option to pay additional voluntary contributions to secure additional pension. These are not included in the above table.

The pension entitlement shown is that which would be paid annually on retirement, based on service to 31 December 2005. Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN 11. These represent actuarial liabilities of the schemes, not sums due to the directors.

Related party transactions

Unfunded pensions paid to former non-executive directors were £nil (2004 : £4,210).

All transactions between directors and the Group are on commercial terms which are equivalent to those available to all employees. During the year to 31 December 2005 the directors contributed £6m (2004 : £0.6m) to products sold by the Group.

On behalf of the Board of Directors
Gerry Grimstone, Chairman, Remuneration Committee
Edinburgh, 28 March 2006